

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

***Financial Statements and Supplementary
Information as of June 30, 2004 and for the Year
then Ended and Independent Auditors' Reports***

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Iowa Municipalities Workers' Compensation Association
Des Moines, Iowa

We have audited the accompanying balance sheet of Iowa Municipalities Workers' Compensation Association (the "Association") as of June 30, 2004, and the related statements of operations and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Chapter 11 of the Code of Iowa. Those standards and Chapter 11 of the Code of Iowa require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Association adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended June 30, 2004.

The management's discussion and analysis on pages 4-8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Association's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole for the year ended June 30, 2004. The supplementary information listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Association's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2004, on our consideration of the Association's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 25, 2004

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

Iowa Municipalities Workers' Compensation Association, referred to as the "Association", offers readers of our basic financial statements this narrative overview and analysis of the financial activities of the Association for the fiscal year ended June 30, 2004. The Association encourages readers to consider the information presented here in conjunction with the basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- The total assets of the Association exceeded its liabilities at the close of the most recent fiscal year by \$5,883,647. Total net assets decreased by \$1,761,887 during fiscal year 2004.
- The Association's total assets increased by \$3,394,842 over the prior year.
- Additions to computer equipment and software were \$15,753, offset by disposals of \$11,327 and depreciation expense of \$63,159.
- The ending cash balance was \$7,880,888 for the Association.
- The investments held by the Association at the end of the fiscal year were \$15,079,880, which were invested in accordance with the *Code of Iowa* Section 12B.10 Public Fund Investment Standards and the investment policy established by the Association's Board of Trustees.
- Due to the decline of interest rates, the investment income fell \$276,752.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Association's audited basic financial statements. The basic financial statements are comprised of the balance sheet, statement of operations and changes in net assets, and statement of cash flows. This report also includes notes to the financial statements that explain in more detail some of the information in the financial statements.

REQUIRED BASIC FINANCIAL STATEMENTS

The Association's basic financial statements are designed to provide readers with a broad overview of the finances, in a manner similar to those used by private-sector business. These statements offer short- and long-term information about its activities.

The balance sheet includes all of the Association's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). This statement also provides the basis for evaluating the capital structure of the Association and assessing the liquidity and financial flexibility of the Association. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The statement of operations and changes in net assets accounts for all of the current year revenues and expenses. This statement measures the success of the Association's operations over the past year and can be used to determine whether the Association has successfully recovered all of its costs through member premium and any other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The cash flow statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. It also provides answers to various questions such as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

As noted earlier, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating. It is essentially a way to measure the financial health or position of the Association. The balance sheet and statement of operations and changes in net assets report the net assets of the Association and the changes therein. However, other non-financial factors such as changes in economic conditions and new or changed governmental legislation should also be considered.

NET ASSETS

A summary of the Association's condensed balance sheets at June 30, 2004 and June 30, 2003 is presented below.

Condensed Balance Sheets

	2004	2003	2003 vs. 2004 Increase (Decrease)	% Change Increase (Decrease)
Current and Other Assets	\$24,306,981	\$20,859,196	\$3,447,785	16.5%
Capital Assets	<u>136,435</u>	<u>189,378</u>	<u>(52,943)</u>	(28.0)%
Total Assets	<u><u>\$24,443,416</u></u>	<u><u>\$21,048,574</u></u>	<u><u>\$3,394,842</u></u>	16.1%
Unpaid Claims	\$16,406,138	\$11,496,228	\$4,909,910	42.7%
Other Liabilities	<u>2,153,631</u>	<u>1,906,812</u>	<u>246,819</u>	12.9%
Total Liabilities	<u><u>\$18,559,769</u></u>	<u><u>\$13,403,040</u></u>	<u><u>\$5,156,729</u></u>	38.5%
Invested in Capital Assets	\$ 136,435	\$ 189,378	\$ (52,943)	(28.0)%
Unrestricted Net Assets	<u>5,747,212</u>	<u>7,456,156</u>	<u>(1,708,944)</u>	(22.9)%
Total Net Assets	<u><u>\$5,883,647</u></u>	<u><u>\$7,645,534</u></u>	<u><u>\$(1,761,887)</u></u>	(23.0)%

The total assets of the Association at the fiscal year end were \$24,443,416, an increase of \$3,394,842 from the previous year. This is primarily attributable to increases in rates for member premiums in 2004. Total liabilities increased by \$5,156,729 predominantly because of large increases in unpaid claims (claims reserves).

During fiscal year 2004, total net assets decreased by \$1,761,887. This reduction in net assets resulted from the large increase in unpaid claims (claims reserves) not being offset by the increase in member premiums for the fiscal year.

OPERATIONS AND CHANGES IN NET ASSETS

A summary of the Association's condensed operations and changes in net assets at June 30, 2004 and June 30, 2003 is presented below.

Condensed Statements of Operations and Changes in Net Assets

	2004	2003	2003 vs. 2004 Increase (Decrease)	% Change Increase (Decrease)
Net Premiums Earned	\$11,534,490	\$9,624,705	\$1,909,785	19.8%
Net Claims	<u>10,902,525</u>	<u>7,771,470</u>	<u>3,131,055</u>	40.3%
Excess (deficiency) of net premiums earned over net claims	631,965	1,853,235	(1,221,270)	(65.9)%
Operating Expenses	2,425,524	2,136,008	289,516	13.6%
Non-Operating Income	<u>31,672</u>	<u>315,216</u>	<u>(283,544)</u>	(90.0)%
Change in Net Assets	(1,761,887)	32,443	(1,794,330)	(5531.2)%
Distribution to Members	0	(355,255)	355,255	100.0%
Net Assets, Beginning of Year	<u>7,645,534</u>	<u>7,968,346</u>	<u>(322,812)</u>	(4.1)%
Net Assets, End of Year	<u>\$5,883,647</u>	<u>\$7,645,534</u>	<u>\$(1,761,887)</u>	(23.0)%

Revenue: The Association had a rate increase effective July 1, 2003 of approximately 18%. The National Council on Compensation Insurance (NCCI) in the state of Iowa requested a rate increase of 11%, an additional 4% was due to payroll increases of members and 3% was due to a decrease in the Association's discount to members. This resulted in the majority of the increase in premium, net of reinsurance, of \$1,909,785. The remainder of the increase was a result of new members entering the program. The premium increase was not enough to offset large claim reserve increases.

Non-operating income decreased by \$283,544 essentially due to investment income. Not only did interest rates continue to be low, but the Association was required to recognize approximately \$80,000 in unrealized losses due to several investments being purchased at a much higher premium than in previous years.

Expenses: The Association significantly increased claim reserves from previous fiscal years due to an increase in the cost of expected claims. This directly affected the net assets at the end of fiscal year 2004. Total net claims at year end were \$10,902,525, as compared to \$7,771,470 in the previous year. This is an increase of \$3,131,055, or 40.3%. The increase resulted from an increase to case reserves of claims as determined by the claims staff.

Operating expenses increased 13.6%, or \$289,516, over the previous year mainly due to expenses related to the increase in member premiums such as agent commission and medical bill review expenses.

Net Assets: At June 30, 2004, the Association's net assets showed a \$1,761,887 reduction from the previous year, ending up at \$5,883,647.

CAPITAL ASSETS

As of June 30, 2004, the Association owns mainly computer equipment and software for capital assets.

	2004	2003	2003 vs. 2004 Increase (Decrease)	% Change Increase (Decrease)
Equipment	\$194,200	\$189,941	\$ 4,259	2.2%
Software	<u>162,307</u>	<u>162,140</u>	<u>167</u>	0.1%
Total	356,507	352,081	4,426	1.3%
Less: Accumulated Depreciation	<u>(220,072)</u>	<u>(162,703)</u>	<u>(57,369)</u>	35.3%
Capital Assets, Net	<u><u>\$136,435</u></u>	<u><u>\$189,378</u></u>	<u><u>\$(52,943)</u></u>	(28.0)%

Capital asset purchases during fiscal year 2004 were actually \$15,753 which included new computers and monitors, storage file cabinets and software programs/licenses for the Association staff. Several obsolete computers were disposed of bringing the net change in capital assets to \$4,426 before accumulated depreciation.

PERFORMANCE COMPARED TO BUDGET

The annual budget is prepared internally by staff and approved by the Board of Trustees approximately 90 days prior to the beginning of each fiscal year. This budget estimates the amount of premiums, investment income, claims-related expenses, and general and administrative expenses the Association will earn or incur during the following year. Throughout the year, staff prepares interim financial statements to compare the projected revenue and expense figures with the Association's actual experience.

The following summary compares fiscal year 2004 operating expense actual to budget information for the Association.

Budget vs. Actual

	FY 2004 Budget	FY 2004 Actual	Dollar Variance	Percentage Variance
Direct Expenses	\$ 770,600	\$ 758,933	\$ (11,667)	(1.5)%
General & Admin Expenses	1,566,175	1,603,432	37,257	2.4%
Depreciation Expenses	<u>55,000</u>	<u>63,159</u>	<u>8,159</u>	14.8%
Total Operating Expenses	<u><u>\$2,391,775</u></u>	<u><u>\$2,425,524</u></u>	<u><u>\$ 33,749</u></u>	1.4%

The budget for 2004 underestimated the expenses that the Association would incur compared to the revenue which it would earn; thus, the actual amount of net assets, which the Association had at the end of 2004, was less than expected. Operating expenses were \$2,425,524 or 1.4% over budget for the fiscal year. The overage is primarily due to expenses that are attributable to premium increases, such as agent commissions and medical bill review expenses.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Association's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Accounting Department, Iowa Municipalities Workers' Compensation Association, 317 Sixth Avenue, Suite 800, Des Moines, IA 50309.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

BALANCE SHEET

JUNE 30, 2004

ASSETS

CASH AND CASH EQUIVALENTS	\$ 7,880,888
RECEIVABLES:	
Accrued interest	80,230
Reinsurance recoverable	733,172
Other	701
	<u>814,103</u>
INVESTMENTS	15,079,880
CAPITAL ASSETS	
(net of accumulated depreciation of \$220,072 as of June 30, 2004)	136,435
OTHER ASSETS	<u>532,110</u>
TOTAL ASSETS	<u>\$24,443,416</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	
Unpaid claims	\$ 16,406,138
Advanced premiums	2,104,452
Accounts payable and other accrued expenses	<u>49,179</u>
Total liabilities	<u>18,559,769</u>
NET ASSETS:	
Invested in capital net assets	136,435
Unrestricted net assets	<u>5,747,212</u>
Total net assets	<u>5,883,647</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$24,443,416</u>

See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

PREMIUMS:

Premiums written and earned	\$ 12,368,040
Less: Reinsurance premiums	<u>833,550</u>
Net premiums earned	<u>11,534,490</u>

CLAIMS:

Claims paid	6,539,906
Increase in gross unpaid claims	4,909,909
Reinsurance recoveries received	(10,771)
Increase in reinsurance recoveries netted to unpaid claims	<u>(536,519)</u>
Net claims	<u>10,902,525</u>

Excess of net premiums earned over net claims	631,965
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INVESTMENT INCOME	31,506
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OTHER INCOME	166
Total revenues	<u>663,637</u>

OPERATING EXPENSES:

Direct expenses	758,933
Depreciation expense	63,159
General and administrative expense	<u>1,603,432</u>
Total operating expenses	<u>2,425,524</u>

CHANGE IN NET ASSETS	(1,761,887)
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NET ASSETS, BEGINNING OF YEAR	<u>7,645,534</u>
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NET ASSETS, END OF YEAR	<u>\$ 5,883,647</u>
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See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from members for premiums	\$ 12,589,246
Cash received from reinsurers for reinsurance	10,771
Cash payments to reinsurers for reinsurance premiums	(815,994)
Cash payments to suppliers for goods and services	(2,415,069)
Cash payments to claimants for claims	(6,539,904)
Net cash provided by operating activities	<u>2,829,050</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Proceeds from sales of computer equipment and software	657
Purchases of computer equipment and software	(15,753)
Net cash used in capital financing activities	<u>(15,096)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from maturities of investments	11,492,956
Purchases of investments	(19,179,471)
Interest received on investments	298,765
Interest paid upfront on investments	(117,177)
Net cash used in investing activities	<u>(7,504,927)</u>

DECREASE IN CASH AND CASH EQUIVALENTS	(4,690,973)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,571,861</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,880,888</u>
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(continued)

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Change in net assets	\$ (1,761,887)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	63,159
Interest received on investments	(298,765)
Interest paid upfront on investments	117,177
Realized and unrealized losses on investments	80,534
Gain on disposals of computer equipment and software	4,880
Change in:	
Receivables	(549,095)
Other assets	16,318
Unpaid claims	4,909,910
Advanced premiums	217,379
Accounts payable and other accrued expenses	<u>29,440</u>
Net cash provided by operating activities	<u>\$ 2,829,050</u>

(concluded)

See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - Iowa Municipalities Workers' Compensation Association (the "Association") was formed in July, 1981 under Chapter 28E, *Code of Iowa*, to allow Iowa cities to join together to comply with provisions of Chapter 87, *Code of Iowa*, by pooling the risks of their workers' compensation liabilities. In 1987, the 28E Agreement forming the Association was amended to allow Iowa counties to become members. The Association is governed by a seven member Board of Trustees of city and county officials elected by the members. The program's general objectives are to formulate, develop and administer, on behalf of the member political subdivisions, a program of joint self-insurance to stabilize costs related to members' workers' compensation liabilities. Program components include claims management, member education and loss control services.

Membership in the Association is limited to Iowa cities, counties, Chapter 28E entities, and other political subdivisions subject to approval in writing by the Board of Trustees or their designee; a member may withdraw from the Association at any time by complying with rules of the Association. Annual premiums are determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association's resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Association has elected not to apply the provisions of pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

Effective July 1, 2003, the Association adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements resulted in the addition of Management's Discussion and Analysis and included certain reformatting, but had no financial impact on the Association.

The Association consists of one fund designated as the Standard Group (formerly Group C). Group A remained in existence only for the settlement of the remaining claims and monies held in the fund which was liquidated December 31, 1996. Group B remained in existence only for the settlement of the remaining claims and monies held in the fund which was liquidated June 11, 2003. Standard Group membership consisted of 364 cities, 64 counties and 48 Chapter 28E entities for 2004.

Cash and Cash Equivalents - The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments - U.S. government agencies are carried at fair values which are based on quoted market prices. Bank deposits in nonparticipating interest-earning investment contracts are reported at cost.

Capital Assets – Capital assets, primarily computer equipment and software, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over a five year estimated useful life.

Unpaid Claims - The liability for unpaid claims is based on estimates of the costs of individual cases for losses and claims reported prior to year end plus a provision for losses incurred but not yet reported. The estimated liability for the costs of adjusting unpaid claims has been established on the basis of the experience of the Association as determined by management and reviewed by an independent actuary.

Advanced Premiums - Advanced premiums represent amounts received in advance from members for the following year's policies. The Association's policy coverage period coincides with its fiscal year, and as such, amounts reflected on the balance sheet at the end of each fiscal year are recognized as income in full in the subsequent year.

Income Taxes - The Association is a governmental risk pool and under various Internal Revenue Service rulings, similar organizations have been determined to be exempt from income taxes. It is therefore management's and their counsel's belief that the Association is also exempt from income taxes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – In March of 2003, GASB issued Statement No. 40 ("GASB 40"), "Deposit and Investment Risk Disclosures." GASB 40, which is required to be adopted by the Association in its fiscal year ending June 30, 2005, establishes new disclosures for investments that have fair values that are highly sensitive to changes in interest rates. The Association does not expect the adoption of this pronouncement to have a significant effect on the operations or financial position of the Association.

2. DEPOSITS AND INVESTMENTS

Deposits - The Association's deposits are entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the Association or the Association's agent in the Association's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C, *Code of Iowa*. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. At June 30, 2004, the carrying amount of the Association's cash deposits with financial institutions was \$3,500,000.

Investments - The Association is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered and open-end management investment companies; and certain joint investment trusts.

The U.S. government agencies are classified as to credit risk as insured or registered in the Association's name, or securities held by the Association or its agent in the Association's name. The carrying value and fair value of the U.S. government agencies held by the Association at June 30, 2004, was \$11,579,880.

The Association's investments during the year did not vary substantially from those at the prior year-end in level of risk. Certificates of deposit, which have been presented as bank deposits in this note, are classified as investments in the financial statements. It is management's intent to hold all investments to maturity.

3. REINSURANCE

The Association has maintained reinsurance policies for the year ended June 30, 2004. As of June 30, 2004, the specific limit of indemnity is unlimited per occurrence in excess of \$500,000 subject to \$4,500,000 per occurrence sublimit for employers' liability for the Standard Group. At June 30, 2004, the Association's Standard Group had a recoverable from reinsurer on unpaid claims amounting to \$733,172.

The accompanying financial statements reflect financial position and results of operations net of related reinsurance. To the extent that any reinsuring companies are unable to meet their obligations under the reinsurance agreements, the Association would remain liable.

Under these reinsurance agreements with NLC Mutual Insurance Company ("NLC"), there is a requirement that a certain level of capital contributions be maintained based upon the amount of premium written by the Association. NLC credits the Association's capital contribution with an allocation of NLC's statutory earnings included in investment income. These contributions are reflected in other assets. For 2004, investment loss from NLC was \$81,515. The total expenditures made for the capital contributions and reinsurance premiums are competitively priced with reinsurance premiums charged by other reinsurers.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 189,941	\$ 14,615	\$ (10,356)	\$ 194,200
Software	<u>162,140</u>	<u>1,138</u>	<u>(971)</u>	<u>162,307</u>
Total	352,081	15,753	\$ (11,327)	356,507
Less accumulated depreciation	<u>(162,703)</u>	<u>(63,159)</u>	<u>5,790</u>	<u>(220,072)</u>
Capital assets, net	<u>\$ 189,378</u>	<u>\$ (47,406)</u>	<u>\$ (5,537)</u>	<u>\$ 136,435</u>

5. MANAGEMENT AGREEMENT WITH AFFILIATE

The Association has a management agreement with the Iowa League of Cities (the "League"), an affiliate, that provides for a management fee. The agreement is subject to termination by either party upon six months' written notice. During the year ended June 30, 2004, management fees of \$781,500 were incurred.

The Association has an additional management agreement with the League that provides for a fee for institutional value. The fee will continue for future years. The agreement is subject to termination by either party upon six months written notice. During the year ended June 30, 2004, fees of \$173,405 were paid to the League.

6. UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Association establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim expenses. The following represents changes in those aggregate liabilities for the Association during the year ended June 30, 2004:

	2004
Unpaid claims at beginning of year, net of reinsurance of \$196,654 as of July 1, 2003	<u>\$ 11,299,574</u>
Inurred claims, net of reinsurance:	
Provision for insured events of the current year	9,092,655
Increase in provision for insured events of prior years	<u>1,809,870</u>
Total incurred claims	<u>10,902,525</u>
Reinsurance recoveries received	<u>10,771</u>
Payments:	
Claims attributable to insured events of the current year	2,139,703
Claims attributable to insured events of prior years	<u>4,400,201</u>
Total payments	<u>6,539,904</u>
Unpaid claims at end of year, net of reinsurance of \$733,172 as of June 30, 2004	<u>\$ 15,672,966</u>

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IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

The following tables illustrate how the Association's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Association as of the end of each of the last ten years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
2. This line shows each fiscal year's other operating costs of the Group including overhead and claims expense not allocable to individual claims.
3. This line shows the Association's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of rows shows the cumulative amounts paid (net of reinsurance recoveries received) as of the end of successive years for each policy year.
5. This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
6. This line compares the latest reestimated incurred claims amount to the amount originally established (Line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2004

GROUP B

	Fiscal And Policy Year Ended (In Thousands Of Dollars)							
	Post 1997	1997	1996	1995	1994	1993	1992	1991
1. Ceded net earned required contribution and investment revenues:								
a. Net contributions	\$ 92	\$ 3,140	\$ 3,396	\$ 3,586	\$ 3,648	\$ 3,249	\$ 3,002	\$ 2,604
b. Interest income	601	741	946	1,039	646	739	1,370	2,126
2. Unallocated expenses:								
a. Operating expenses	1,194	553	841	777	768	765	887	897
b. Interest expense		207	394	557	538	772	1,270	1,744
3. Estimated incurred claims and expense, end of policy year (no cessions)		2,204	1,900	1,800	2,125	2,400	2,196	1,783
4. Cumulative amounts paid as of:								
End of policy year		877	656	608	718	762	708	620
One year later		1,784	935	1,141	1,454	1,159	1,331	975
Two years later		2,002	1,076	1,381	1,614	1,437	1,528	1,174
Three years later		2,058	1,158	1,541	1,697	1,505	1,739	1,249
Four years later		2,089	1,169	1,585	1,774	1,694	1,985	1,368
Five years later		2,111	1,214	1,625	1,777	1,724	2,017	1,356
Six years later		2,130	1,219	1,627	1,784	1,729	1,987	1,355
Seven years later		2,138	1,221	1,631	1,788	1,731	1,987	1,355
Eight years later			1,221	1,635	1,788	1,735	1,987	1,355
Nine years later				1,647	1,793	1,738	1,987	1,355
Ten years later					1,793	1,744	1,987	1,355
5. Reestimated incurred claims and expense:								
End of policy year		2,204	1,900	1,800	2,125	2,400	2,196	1,783
One year later		2,200	1,408	1,700	2,000	1,950	2,000	1,460
Two years later		2,250	1,300	1,662	1,900	2,025	1,830	1,450
Three years later		2,250	1,275	1,750	1,869	1,900	1,985	1,375
Four years later		2,157	1,225	1,675	1,850	1,915	2,000	1,369
Five years later		2,146	1,252	1,650	1,850	1,810	2,017	1,356
Six years later		2,139	1,261	1,666	1,840	1,775	1,987	1,355
Seven years later		2,120	1,293	1,672	1,817	1,770	1,987	1,355
Eight years later			1,236	1,691	1,815	1,772	1,987	1,355
Nine years later				1,659	1,862	1,774	2,003	1,355
Ten years later					1,878	1,769	1,991	1,359
6. Decrease in estimated incurred claims and expense from end of policy year		(84)	(664)	(141)	(247)	(631)	(205)	(424)

Claim payments and adjustments for Group B since April 30, 2003 are accounted for in the general ledger as a part of the Standard Group.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2004

GROUP C

	Fiscal And Policy Year Ended (In Thousands Of Dollars)						
	1997	1996	1995	1994	1993	1992	1991
1. Ceded net earned required contribution and investment revenues:							
a. Net contributions	\$ 2,418	\$ 2,840	\$ 2,603	\$ 2,462	\$ 1,913	\$ 991	\$ 631
b. Interest income	397	323	464	110	130	34	15
2. Unallocated expenses:							
a. Operating expenses	511	597	474	402	380	294	141
3. Estimated incurred claims and expense, end of policy year (no cessions)	1,304	1,700	1,555	1,550	1,200	691	263
4. Cumulative amounts paid as of:							
End of policy year	502	453	615	432	285	290	100
One year later	783	1,009	1,088	825	651	682	144
Two years later	921	1,256	1,288	1,159	935	866	209
Three years later	1,085	1,564	1,356	1,244	1,034	964	284
Four years later	1,178	1,618	1,429	1,264	1,098	994	308
Five years later	1,179	1,621	1,446	1,301	1,182	1,075	318
Six years later	1,179	1,659	1,446	1,313	1,198	1,038	330
Seven years later	1,179	1,659	1,446	1,327	1,223	1,063	340
Eight years later		1,659	1,446	1,383	1,271	1,142	351
Nine years later			1,446	1,393	1,340	1,145	458
Ten years later				1,403	1,465	1,146	458
5. Reestimated incurred claims and expense:							
End of policy year	1,304	1,700	1,555	1,550	1,200	691	263
One year later	1,225	1,669	1,500	1,600	1,075	1,250	309
Two years later	1,150	1,000	1,570	1,459	1,325	1,175	400
Three years later	1,200	1,725	1,500	1,494	1,325	1,130	375
Four years later	1,223	1,700	1,550	1,450	1,337	1,130	435
Five years later	1,229	1,674	1,500	1,450	1,280	1,229	435
Six years later	1,370	1,716	1,492	1,450	1,360	1,185	447
Seven years later	1,068	1,701	1,499	1,498	1,370	1,250	435
Eight years later		1,698	1,474	1,490	1,433	1,200	435
Nine years later			1,472	1,507	1,454	1,204	461
Ten years later				1,551	1,645	1,320	460
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	236	(2)	(83)	1	445	629	197

Claim payments and adjustments for Group C are accounted for in the general ledger as a part of the Standard Group.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2004

STANDARD GROUP

	Fiscal and Policy Year Ended (In Thousands of Dollars)						
	2004	2003	2002	2001	2000	1999	1998
1. Ceded net earned required contribution and investment revenues:							
a. Net contributions	\$ 11,534	\$ 9,625	\$ 6,637	\$ 5,529	\$ 4,889	\$ 4,573	\$ 5,158
b. Interest income	32	462	462	1,078	944	902	611
2. Unallocated expenses:							
a. Operating expenses	2,426	2,058	1,599	2,089	1,064	1,156	882
3. Estimated incurred claims and expense, end of policy year (no cessions)	8,169	7,584	5,279	4,573	3,750	4,533	3,031
4. Cumulative amounts paid as of:							
End of policy year	2,140	2,770	1,645	1,585	1,248	2,273	1,021
One year later		5,231	3,176	3,225	3,070	2,667	1,496
Two years later			4,049	4,152	3,740	3,531	2,822
Three years later				4,614	3,996	4,307	3,000
Four years later					4,186	4,510	3,157
Five years later						4,723	3,183
							3,221
5. Reestimated incurred claims and expenses:							
End of policy year	8,169	7,584	5,279	4,573	3,750	4,533	3,031
One year later		9,110	5,300	5,800	4,200	4,100	3,550
Two years later			5,598	5,700	4,850	4,912	3,500
Three years later				6,513	4,566	5,530	3,508
Four years later					4,733	5,529	3,635
Five years later						5,689	3,638
							3,638
6. Increase in estimated incurred claims and expense from end of policy year	-	1,526	319	1,742	983	1,156	607

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Iowa Municipalities Workers' Compensation Association
Des Moines, Iowa

We have audited the basic financial statements of Iowa Municipalities Workers' Compensation Association (the "Association") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Chapter 11 of the Code of Iowa.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have reported such to the management of the Association in a separate letter dated October 25, 2004.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Association's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the Association, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

Des Moines, Iowa
October 25, 2004